

VINTON MUNICIPAL ELECTRIC UTILITY

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

JUNE 30, 2015

Vinton Municipal Electric Utility

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VINTON MUNICIPAL ELECTRIC UTILITY

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jon Kremer	Chairperson	December 2017
Michael Barron	Trustee	December 2016
Alan Woodhouse	Trustee	December 2015
Michael Elwick	Trustee	December 2019
John Anderson	Trustee	December 2020
Rick Ohrt	General Manager	Indefinite
Cindy Michael	Secretary	Indefinite

James R. Ridihalgh, C.P.A.
Gene L. Fuelling, C.P.A.
Donald A. Snitker, C.P.A.
Jeremy P. Lockard, C.P.A.
Brent Waters, C.P.A.

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Oelwein, IA 50662
(319)283-1173
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Independent Auditor's Report

To the Board of Trustees
Vinton Municipal Electric Utility
Vinton, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the business type activities of Vinton Municipal Electric Utility (a municipal utility), a component unit of the City of Vinton, Iowa, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utility's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities of Vinton Municipal Electric Utility as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 9 to the financial statements, Vinton Municipal Electric Utility adopted new accounting guidance related to the Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions-an Amendment of GASB Statement No. 27. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the Utility's Proportionate Share of the Net Pension Liability, and the Schedule of Utility Contributions and the Schedule on pages 7 through 8 and pages 29 through 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Vinton Municipal Electric Utility's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the two years ended June 30, 2014(which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in the Schedule of Operating Expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional

procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 14, 2016 on our consideration of Vinton Municipal Electric Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Vinton Municipal Electric Utility's internal control over financial reporting and compliance.

Ridihalgh, Fuelling, Snitker, Weber & Co., P.C.

RIDIHALGH, FUELLING, SNITKER, WEBER, & CO. P.C., C.P.A.'S

January 14, 2016

Vinton Municipal Electric Utility Management's Discussion and Analysis

The Vinton Municipal Electric Utility provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2015. We encourage readers to consider this information in conjunction with the Electric Utility's financial statements, which follow.

2014-2015 FINANCIAL HIGHLIGHTS

The Utility's operating revenue decreased \$310,379, from fiscal 2014 to fiscal 2015.

The Utility's operating expenses decreased \$23,763 from fiscal 2014 to fiscal 2015.

The Utility's net assets increased \$128,527 from June 30, 2014 to June 30, 2015

In July of 2014 a check for the amount of \$8,495 plus tax (\$9,089.65) was issued to Combustion Controls for the boiler modification that was authorized in the 2013-2014 fiscal year after obtaining proposals from Day Mechanical and Combustion Controls. Combustion Controls had the low bid as noted in the January 2014 board minutes under the manager's report.

In the September 2014 board meeting the board approved spending \$13,000 to purchase a backup/spare 7.5 Megawatt transformer from Independence that will be installed on the city's municipal parking lot. At the meeting a notice from Larry Johnson to terminate the farm ground cash rental agreement due to falling commodity prices was recorded. The board waited until December to decide on a reduction in cash rent.

In the October 2014 board meeting the board approved spending \$9,000 to purchase 2 magna-blast breakers with the cabinets and a voltage regulator from Independence. They also approved lending the city \$300,000 at 2% for 3 years for truck purchases.

In December 2014 Jerry Meadows retired from VMEU resulting in a deferred sick leave and vacation payout. The total payout is \$24,918.74 which will be paid monthly towards continuing health insurance coverage for Jerry until the balance is depleted. The Utility Board also voted in December to reduce the cash rent to \$11,000 per year which was accepted by Larry Johnson. The Utility Board authorized the Utility Manager to purchase 4 additional breakers at a maximum of \$3,500 each from Independence. Manager Ohrt offered Independence \$3,000 per breaker and the offer was accepted for a total of \$12,000.

In January 2015 the Utility Board approved investing in a new underground locator with a estimated cost of \$2,500 to \$3,500. The locator was higher in cost than anticipated with a final purchase price of \$4,435.15.

In February 2015 the Utility Board approved spending up to \$60,000 to start the installation process on installing the used transformer from Independence in our substation lot at 214 E. 2nd Street. The Utility Board also approved the proposed 2015-2016 budget during the meeting.

In May 2015 the Utility Board approved an administrative claim of \$6,206.52 for Alco Stores, Inc. bankruptcy to Fair Harbor Capital for \$4,841.09.

In early June of 2015 one full tanker of fuel oil and one partial tanker of fuel oil was purchased from New Century Farm Service (Growmark, Inc.). The cost per gallon was \$1.88 and the two invoices totaled \$18,388.96 which included delivery charges etc. The board also approved accepting a quote from C & S Concrete Construction for \$22,005. Several attempts were made to acquire other quotes but no other contractors would bid it or if they did they would sub it out to C & S. The Utility Board also approved purchasing replacement parts from Tower Tech for a cooling tower repair for approximately \$8,800. The actual price was \$8,784.71 paid to Tower Tech, Inc.

Under budgetary highlights:

Actual cash receipts were approximately 1.73% more than budgeted due to reimbursements received from the state and federal government for the close out of storm 2011 related grants.

Actual cash disbursements were approximately 27% below budgeted figures. Some of the significant factors resulting in the below budget disbursements were:

Wholesale power costs were approximately 8% below budget.

Fuel oil and natural gas costs combined were approximately 54% below budget.

Administrative salaries were approximately 42 percent below budget.

Generation Auxiliaries were approximately 53% under budget.

There were no additional storm 2011 related expenses in FY 14-15 but the project was closed and a state payout of \$97,222 was received along with a Federal payout of \$74,297 for a combined total of \$171,519.

Basic Financial Statements

Vinton Municipal Electric Utility
Statement of Net Position
June 30, 2015

ASSETS:

Current Assets:

Cash and cash equivalents	\$ 5,158,670
Receivables:	
Trade accounts, net allowance for uncollectibles	259,323
Intergovernmental	-
Unbilled revenues	126,077
City of Vinton	14,171
Current portion of notes	140,087
Prepaid expenses	75,642
Inventory	730,416
Total Current Assets	<u>6,504,386</u>

Noncurrent Assets:

Notes receivable	339,373
Investment in joint venture	76,697
Capital Assets, net accumulated depreciation	5,334,142
Total Noncurrent Assets	<u>5,750,212</u>

TOTAL ASSETS	<u>12,254,598</u>
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DEFERRED OUTFLOWS of RESOURCES

Pension related deferred outflows	<u>60,101</u>
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LIABILITIES:

Current Liabilities:

Accrued Payroll	11,387
Accounts Payable	260,009
Accrued sales and use tax	4,897
Accrued compensated absences	97,344
Accrued pension	218,676
Current portion of legal settlement	18,487
Total Liabilities	<u>610,800</u>

Noncurrent Liabilities:

Noncurrent portion of legal settlement	<u>52,378</u>
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TOTAL LIABILITIES	<u>663,178</u>
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DEFERRED INFLOWS OF RESOURCES:

Pension related deferred inflows	<u>83,397</u>
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NET POSITION:

Invested in capital assets	5,334,142
Unrestricted	6,233,982
Total Net Position	<u>\$ 11,568,124</u>

See notes to the financial statements

Vinton Municipal Electric Utility
Statement of Revenues, Expenses
and Changes in Fund Net Position
Year Ended June 30, 2015

Operating Revenues:	
Charges for services	\$ 4,090,214
Sales and services to City of Vinton	170,188
Miscellaneous operating revenue	105,379
Total Operating Revenue	<u>4,365,781</u>
Operating expenses:	
Generation	2,760,192
Distribution	486,962
Customer account	31,078
Administration and general	330,770
Benefits to community and city	168,922
Depreciation and amortization	289,929
Total Operating Expenses	<u>4,067,853</u>
Operating Income	<u>297,928</u>
Non-Operating Revenues (Expenses):	
Federal grants	-
State grants	-
Adjustment on Governmental Revenue	(8,786)
Estimate from Prior Years	
Interest income	11,159
Inventory adjustment due to flood	102,539
Total Non-Operating Revenues (Expenses)	<u>104,912</u>
Changes in Net Position	402,840
Net Position, beginning of year, restated	<u>11,165,284</u>
Net Position, end of year	<u>\$ 11,568,124</u>

See notes to the financial statements

Vinton Municipal Electric Utility
Statement of Cash Flows
Year Ended June 30, 2015

Cash flows from operating activities:	
Cash received from customers and users	\$ 4,297,396
Cash received from primary government	144,486
Cash paid for services	(776,150)
Inventory adjustment	102,539
Cash paid to suppliers	(2,893,108)
Cash paid to primary government	<u>(265,536)</u>
Net cash provided by operating activities	<u>609,627</u>
Cash flows from noncapital financing activities:	
Cash received for nonoperating revenues	24,291
Cash received from noncapital grants	214,264
Cash paid back on noncapital grants	(8,786)
Cash paid for nonoperating expenses	<u>(18,488)</u>
Net cash provided by noncapital financing activities	<u>211,281</u>
Cash flows from capital financing activities:	
Acquisitions of capital assets	<u>(65,655)</u>
Net cash used by capital financing activities	<u>(65,655)</u>
Cash flows from investing activities:	
Collections on notes from City of Vinton	39,812
Loan to City of Vinton	(300,000)
Interest on investments	<u>11,160</u>
Net cash provided by investing activities:	<u>(249,028)</u>
Net increase in cash and cash equivalents	506,225
Cash and cash equivalents beginning of year	<u>4,652,445</u>
Cash and cash equivalents end of year	<u><u>\$ 5,158,670</u></u>

See notes to the financial statements

Vinton Municipal Electric Utility
Statement of Cash Flows
Year Ended June 30, 2015

Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 402,840
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	289,929
Inventory Update	(102,539)
(Increase) decrease in:	
Accounts receivable	31,952
Unbilled revenues receivable	91,138
Inventory	(108,603)
Prepaid expenses	(875)
Increase (decrease) in:	
Accounts payable	(13,424)
Accrued wages payable	(476)
Accrued vacation, comp and sick pay	(26,575)
Other accrued expenses	46,260
	<hr/>
Net cash provided by operating activities	<u><u>\$ 609,627</u></u>

See notes to the financial statements

Vinton Municipal Electric Utility
Notes to the Financial Statements
June 30, 2015

(1) Summary of Significant Accounting Policies

The Vinton Municipal Electric Utility (Utility) is a subdivision of the City of Vinton (City), which is a political subdivision of the State of Iowa. The Utility is considered a component unit of the City under Governmental Accounting Standards Board Statement No. 61. The Utility is a public utility responsible for most of the electrical services to the citizens of the City of Vinton, Iowa.

The Utility's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity:

For financial reporting purposes, the Utility has included all funds. The Utility has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board sets forth criteria to be considered in determining if the Utility is a component unit of the City of Vinton. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis and the Utility is governed by a separate Board of Trustees which is appointed by the Mayor subject to the approval of the City Council. The financial statements are the Enterprise Fund of Vinton Municipal Electric Utility which is a component unit of the City of Vinton.

B. Basis of Presentation:

The Statement of Net Position (previously referred to as net assets) and the Statement of Revenues, Expenses and Changes in Fund Net Position report information on all of the non-fiduciary activities of the Utility.

The Statement of Net Position presents the Utility's non-fiduciary assets, deferred outflow of resources, liabilities, and the deferred inflow of resources, with the difference reported as net position. Net position is reported in the following categories:

Invested in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net position results when constraints placed on asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Utility's policy to use unrestricted resources first.

The Utility reports only one fund, the Electric Utility Fund which is used to account for the generation, distribution, and maintenance of the electric utility.

C. Measurement Focus and Basis of Accounting:

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred. The accounting records are maintained in accordance with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (FERC).

In reporting its financial activity, the Utility applies all applicable GASB pronouncements for proprietary funds as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Utility's Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Utility maintains its financial records on the cash basis. The financial statements of the Utility are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Use of Estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principals requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Assets:

The following accounting policies are followed in preparing the financial statements:

Cash and Cash Equivalents – The cash balances of most Utility funds are pooled and invested. Investments consist of deposits into money market accounts.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Accounts Receivable and Unbilled Revenue – Accounts receivable are shown at the amount expected to be collected after determining the allowance for doubtful accounts based on an aging of all the individual customer balances. Unbilled revenue is for the service consumed between periodic scheduled billing dates and is estimated and recognized as revenue in the period in which the service is provided.

Inventories – Inventories are valued at cost using the average cost method. Inventories consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

Capital Assets – Capital assets, which include property, equipment and vehicles, intangibles and infrastructure assets, are reported on the Statement of Net Position. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. If items of property are sold, retired, or otherwise disposed of, they are removed from the asset and accumulated depreciation accounts, and any gain or losses thereon are reflected in the Statements of Revenues, Expenses and Changes in Fund Net Position.

The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Reportable capital assets are defined by the Utility as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years:

Asset Class	Amount
Land, buildings and improvements	\$ 25,000
Equipment and vehicles	5,000
Infrastructure	30,000
Intangibles	50,000

Capital assets of the Utility are depreciated/amortized using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings and improvements	20-50
Jacket radiator equipment	25
Transportation equipment	5-10
Plant tools and equipment	10-25
Generation equipment	10-50
Distribution system	25-40
Office equipment	3-10

Deferred Outflows of Resources-Deferred outflows of resources represent a consumption of net position that applies to a future periods and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

Pensions-For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources- Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the proprietary fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year.

(2) Cash and Investments

The Utility's deposits in banks at June 30, 2015 were covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies;

certain joint investment trusts; and warrants or improvement certificates of a drainage district.

(3) Notes Receivable

On June 1, 2007, the Utility loaned \$62,098 to the City. The note bears interest at 4%, is unsecured and is payable in semi-annual payments of \$3,798 (includes interest). Final payment is due June 1, 2017. The balance outstanding on the note at June 30, 2015 were \$14,461 respectively.

On July 8, 2010, the Utility loaned \$330,000 to the City. The note bears interest at 2.5% and is payable in annual payments of \$33,000 plus interest each year beginning in June, 2011. Final payment is due in June, 2020. The balance outstanding on the note at June 30, 2015 were \$165,000 respectively.

During the current year the Utility loaned \$300,000 to the City. The note bears interest of 2%, is unsecured and is payable in annual payments of \$100,000 plus interest each year. Balance outstanding at June 30, 2015 was \$300,000.

(4) Unbilled Revenues Receivable

Unbilled revenues receivable consist of electric meter usage that has not been read or billed by the Utility, but represents customer usage prior to year end. The balance at June 30, 2015 was \$126,077.

(5) Inventories

Inventory is stated at the lower of cost or market. At June 30, inventories consisted of the following:

	<u>2015</u>
Fuel oil	\$ 71,028
Lube oil	1,383
Distribution	156,436
Generation	<u>501,569</u>
	<u>\$ 730,416</u>

After finalizing the work of repair after the 2011 storm the Utility conducted an extensive inventory and Generation Plant Operating Supply inventory has been adjusted by \$130,395.

(6) Capital Assets

Capital Assets Not Being Depreciated:	<u>2014</u>	Increase	Decrease	<u>2015</u>
Land	\$ 454,817	—	—	454,817
Construction in Progress	—	—	—	—
Total Capital Assets Not Being Depreciated	<u>454,817</u>	<u>—</u>	<u>—</u>	<u>454,817</u>

Being Depreciated

Capital Assets Being Depreciated:

Buildings and improvements	925,506	—	—	925,506
Jacket radiator equipment	114,284	—	—	114,284
Transportation equipment	454,469	—	—	454,469
Plant tools and equipment	516,534	4,500	—	521,034

Generation equipment	6,106,903	-	—	6,106,903
Distribution system	5,042,845	61,155	—	5,104,000
Office equipment	<u>30,778</u>	<u>—</u>	<u>—</u>	<u>30,778</u>
Total Capital Assets Being Depreciated	<u>13,191,319</u>	<u>65,655</u>	<u>—</u>	<u>13,256,974</u>
Less Accumulated Depreciation	<u>8,087,720</u>	<u>289,929</u>	<u>—</u>	<u>8,377,648</u>
Net Capital Assets Being Depreciated	<u>5,103,599</u>	<u>(224,274)</u>	<u>—</u>	<u>4,879,326</u>
Net Capital Assets	<u>\$ 5,558,416</u>	<u>(224,274)</u>	<u>—</u>	<u>5,334,142</u>

(7) Compensated Absences

The Utility's employees accumulate vacation days during the year based on the anniversary of their employment. At June 30, 2015 \$38,085 were respectively accrued for unused vacation days. Vacation time may only be carried forward from year to year with prior approval of management.

The Utility's full-time employees accrue sick leave at a rate of 8 hours per month. Upon retirement, permanent disability or death, an employee will be paid fifty percent of his or her accumulated sick leave, up to a maximum of 480 hours. At June 30, 2015 \$54,288 were respectively accrued for unused sick pay.

The Utility has a compensatory time policy allowing for the banking of overtime worked up to 120 hours. Compensatory time may be used up to one year from the time earned; any time not used within one year is converted to paid overtime. Upon retirement, permanent disability, or death, an employee will be paid for any unused compensatory time up to 40 hours. At June 30, 2015 \$4,970 was accrued for unused compensatory time.

(8) Joint Venture

The Utility is a member of Resale Power Group of Iowa (RPGI), a joint and cooperative undertaking under the provisions of Chapter 28E of the Code of Iowa. RPGI is administered by the Iowa Association of Municipal Utilities and was organized to provide members with combined bargaining power in negotiating wholesale power contracts and a method of investing in the construction of power lines. This joint venture is accounted for under the cost method. RPGI issues separate, audited, financial statements which are available upon request.

(9) Pension Plan

Plan Description-IPERS membership is mandatory for employees of the Utility, except for those covered by another retirement system. Employees of the Utility are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees Retirement System (IPERS). IPERS issues a stand alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa, 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits-A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service)
- The members highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits- A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies during retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions-Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial

contribution rate be determined using the “entry age normal” actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the City contributed 8.93 percent for a total rate of 14.88 percent.

The Utility’s contributions to IPERS for the year ended June 30, 2015 were \$ 47,921.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.

At June 30, 2015, the Utility reported a liability of \$218,676 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utility’s proportion of the net pension liability was based on the Utility’s share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Utility’s proportion was 0.00020311 percent, which was an increase of 0.00000696 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015 the Utility recognized pension expense of \$15,580. At June 30, 2015, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources :

	Deferred Outflows Of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$2,377	-
Change in assumptions	9,651	-
Net difference between projected and actual earnings on pension investments	-	83,397
Changes in proportion and differences between Utility contributions and proportionate share of contributions	15,853	-
Utility contributions subsequent to the measurement date	<u>32,220</u>	<u>-</u>
	<u>\$60,101</u>	<u>83,397</u>

The \$32,220 reported as deferred outflows related to pensions resulting from the Utility contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the pensions will be recognized in pension expense as follows:

Year ended June 30,	
2016	(\$13,900)
2017	(13,900)
2018	(13,900)
2019	(13,900)
2020	<u>84</u>
	\$ <u>55,516</u>

There are no non-employer contributing entities at IPERS.

Actuarial Assumptions-The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation	3.00 percent per annum
(effective June 30, 2014)	
Rates of salary increase	4.00 to 17.00 percent, average, including
(effective June 30, 2010)	inflation. Rates vary by membership group
Long-term investment rate of return	7.50 percent, compounded annually, net
(effective June 30, 1996)	of investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	Long-Term Expected
		<u>Real Rate of Return</u>
U.S. Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34

Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	<u>1</u>	(0.69)
Total	<u>100%</u>	

Discount Rate-The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Utility will be made at the contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Utility's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate- The following presents the Utility's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Utility's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease	Discount Rate	1% Increase
	6.5%	7.5%	8.5%
City's proportionate share of the net pension liability	\$ 413,182	\$ 218,676	\$ 54,493

The above numbers represents the estimated amount of the total Utility's share.

Pension Plan Fiduciary Net Position-Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPER'S website at www.ipers.org.

Payables to the Pension Plan-At June 30, 2015, the Utility reported no payables to the defined benefit pension plan for legally required employer contributions and none for legally required employer contributions which had been withheld from employee wages but not yet remitted to IPERS.

(10) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their families. There are 28 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under 65 would pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The City pays the lesser of \$25 or 75% of the cost of insurance. For the year ended June 30, 2015, the Utility contributed \$67,745 and plan members eligible for benefits contributed \$22,581 to the plan.

(11) Related Party Transactions

The Utility provides electrical service to the City of Vinton and bills the City for that usage. The City provides meter reading, administration and accounting services to the Utility. The Utility pays one-half the salary of the Meter Reader and City Clerk, and contributes funds to cover the costs of employing one full time office employee at the City. As disclosed in Note 3, the Utility also had loans outstanding to the City during the year ended June 30, 2015.

Transactions with the City and balances at year end are as follows:

	<u>2015</u>
Amounts billed to the City for electrical service	\$170,188
Amounts received from the City for services	169,013
Receivable from the City at year end for electric services	14,171
Amount loaned to the City	300,000
Amounts received from the City for loan repayments	39,812
Amounts received from the City for Interest on loans	5,527
Note balance at year end	479,460
Payments made to the City for services received	59,500
Payments to the City in-lieu of taxes	84,000

For payroll reporting purposes, Utility employees are classified as City employees. Payroll costs are transferred by the Utility to the City's bank account for payment to, or on behalf of, the employees.

Commercial insurance coverage is combined between the Utility and the City. The Utility pays its share of the premium directly to the insurer.

The Utility purchases electricity for resale from RPGI. Transactions with RPGI and balances at year end are as follows:

	<u>2015</u>
Electricity purchased	\$2,360,559
Cash payments to RPGI	2,389,099
Amounts due to RPGI	208,128

(12) Governmental Receivable for 2011 Storm

The Utility suffered damages from the storm of 2011. The Utility has received a total of \$729,168 in federal funds and \$97,222 from the state. The audit for year ended June 30, 2012 reported the estimated amounts and the amounts were adjusted each year as the actual amounts became more evident. The project was finalized in the

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year ended June 30, 2015 and the Utility is reporting an adjustment to income of \$8,786 during the current year.

(13) RPGI Settlement

May 2014 the Utility began making monthly payments of \$1,540.55 to CIPCO as a result of CIPCO lawsuit against RPGI, of which Vinton Municipal Electric Utility is one of twenty members. The lawsuit settlement was \$166,000 and Vinton Municipal Electric Utility's portion was \$18,486.56 and was to be paid at \$1,540.55 over sixty months.

(14) Budgeting

The Utility is required to prepare a budget each year and submit it to the City of Vinton for approval by the council. The City combines the Utility's budget with other proprietary activities in the total City budget which is submitted to the State of Iowa. The Utility prepares its budget using the cash basis of accounting. The Utility's budget to actual (cash basis) comparison for the year ended June 30, 2015 is as follows:

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Revenues	\$ 4,479,479	4,691,984	(212,505)
Expenditures	(4,076,639)	(5,558,975)	1,482,336

(15) Commitments

The Utility has contracted to purchase its electric power and energy requirements from RPGI. Original agreement is dated January 1, 2004 and is renewed in five year terms. The Utility is now contracted through December 31, 2019. This agreement can be terminated during a five year contract agreement period, but requires two year notice. Costs are dependent upon usage.

(16) Risk Management

The utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Except for distribution property and equipment, these risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The Utility has retained the risk of damage to and destruction of most distribution property and equipment. There were no material estimated liabilities or claims paid during the past fiscal year.

The Vinton Municipal Electric Utility is a member of the Iowa Municipalities Worker's Compensation Association (IMWCA). The IMWCA is a local government risk-sharing pool whose members include various governmental entities throughout the State of Iowa. The IMWCA provides coverage and protection for workers' compensation. There were no reduction insurance coverage from prior years during the year ended June 30, 2015.

Member premiums paid to the IMWCA are based on the rates approved annually by the Iowa Insurance Commissioner and fund all administrative expenses, claims, claims expenses, and discounts or surcharges to each member's premium based on its past loss experience. These discounts or surcharges are in addition to each member's experience modification factor. The membership agreement includes the provision that each member will be responsible for its prorate share of any workers' compensation or related

employer liability claims which exceed the IMWCA's resources available to pay such claims. Members have never been assessed by the IMWCA and the IMWCA fund balance is in excess of all expenses funded by premiums as well as reserves for future known and unknown claims.

(17) Accounting Change/Restatement

GASB No. 68, *Accounting and Financial Reporting for Pensions-an Amendment of GASB No. 27* was implemented during fiscal year 2015. The revision establishes new financial reporting requirements for state and local governments that provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Beginning net position for governmental activities was restated to retroactively report the beginning net position liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

Net position June 30, 2014, as previously reported	\$11,439,597
Net pension liability at June 30, 2014	(313,925)
Deferred outflows of resources related to contributions	
Made after the June 30, 2013 measurement date	<u>39,612</u>
Net Position July 1, 2014, as restated	<u>\$11,165,284</u>

(18) Subsequent Events

Late 2015 the City voted to explore the idea of having a Telecommunications Utility in Vinton Iowa.

(19) Litigation

The Utility has no pending or threatened litigation, claims or assessments as of June 30, 2015.

Supplementary Information

Vinton Municipal Electric Utility
 Budgetary Comparison Schedule
 Comparison of Revenues and Expenses-Actual to Budget
 Year Ended June 30, 2015

	<u>Actual</u>	<u>Budget</u>
Operating Revenues:		
Charges for services	\$ 4,090,214	4,522,734
Sales and services to City of Vinton	170,188	-
Miscellaneous operating revenue	105,379	149,250
Total Operating Revenue	<u>4,365,781</u>	<u>4,671,984</u>
Operating expenses:		
Generation	2,760,192	3,415,831
Distribution	486,962	800,253
Customer account	31,078	35,700
Administration and general	330,770	511,491
Benefits to community and city	168,922	295,700
Depreciation and amortization	289,929	-
Total Operating Expenses	<u>4,067,853</u>	<u>5,058,975</u>
Operating Income	<u>297,928</u>	<u>(386,991)</u>
Non-Operating Revenues (Expenses):		
Adjustment on Governmental Revenue	(8,786)	-
Estimate from Prior Years		
Inventory adjustment	102,539	-
Interest income	11,159	20,000
Contingency	-	(500,000)
Total Non-Operating Revenues (Expenses)	<u>104,912</u>	<u>(480,000)</u>
Changes in Net Position	402,840	(866,991)
Net Position, beginning of year, as restated	<u>11,165,284</u>	<u>11,439,597</u>
Net Position, end of year	<u>\$11,568,124</u>	<u>10,572,606</u>

See notes to the financial statements

Vinton Municipal Electric Utility

Notes to Other Information-Budgetary Reporting

June 30, 2015

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Utility Board annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon classes of disbursements known as functions, not by fund or fund type. The Utility's disbursements are budgeted in the business-type function. The Utility did not amend the budget during the year.

During the year ended June 30, 2015 the Utility's disbursements did not exceed the budgeted amounts

Vinton Municipal Electric Utility

Schedule of the City's Proportionate Share of the
Net Pension Liability

Iowa Public Employees' Retirement System
As of June 30, 2015
(in thousands)

Other Information

	<u>2015</u>
City's proportion of the net pension liability	0.00021613%
City's proportionate share of the net pension liability	\$875
City's covered-employee payroll	\$2,063
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	42.41%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

NOTES:

The above information is for the City of Vinton and includes the Vinton Municipal Electric Utility. It is estimated that the Utility's share of the above is 25%, based on their payroll subject to IPERS compared to the totals reported.

GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

See accompanying independent auditor's report

Vinton Municipal Electric Utility

Iowa Public Employee's Retirement System
Last Ten Years
(In Thousands)

Other Information

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Statutorily required contribution	189	175	170	165
Contributions in relation to the statutorily required contribution	<u>(189)</u>	<u>(175)</u>	<u>(170)</u>	<u>(165)</u>
Contribution deficiency(excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
City's covered-employee payroll	2,063	1,960	1,961	2,045
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.67%	8.07%

NOTE:

The above information is for the City of Vinton and includes the Vinto:

See accompanying independent auditor's report

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
145	133	115	115	107	100
(145)	(133)	(115)	(115)	(107)	(100)
-	-	-	-	-	-
2,086	2,000	1,811	1,901	1,861	1,739
6.95%	6.65%	6.35%	6.05%	5.75%	5.75%

n Municipal Electric Utility.

Vinton Municipal Electric Utility

Notes to Other Information - Pension Liability

June 30, 2015

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups - emergency medical service providers, county jailers, county attorney investigators, and national Guard installation security officers - from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent.
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan

Vinton Municipal Electric Utility

Notes to Other Information - Pension Liability

June 30, 2015

- experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

Supplementary Information

Vinton Municipal Electric Utility
Schedule of Operating Expenses
Year Ended June 30, 2015

Generation:	
Purchased power	\$ 2,360,559
Fuel oil	59,929
Natural gas	59,656
Payroll taxes and employee benefits	45,676
Production labor	182,015
Lubricants and chemicals	13,988
Maintenance	33,673
Miscellaneous	4,696
Total Generation	<u>2,760,192</u>
Distribution:	
Distribution labor	303,715
Payroll taxes and employee benefits	76,216
Maintenance:	
Structure and equipment	6,602
Overhead lines	69,150
Line transformers	325
Street Lighting	2,457
Plant	6,777
Meters	12,535
Supplies	4,555
Miscellaneous	4,630
Total Distribution	<u>486,962</u>
Customer Accounts:	
NSF check/collection expense	10,549
Meter reading	20,529
Total Customer Accounts	<u>31,078</u>
Administration and General:	
Office salaries	101,507
Payroll taxes and employee benefits	25,473
Property insurance	86,160
Outside services	28,287
Office supplies/equipment	18,974
Regulatory assessment	7,357
Membership dues	11,318
Transportation	21,396
Energy efficiency programs	16,655
Miscellaneous	13,643
Total Administration and General	<u>330,770</u>
Benefits to Community and City:	
Labor benefits to city	59,500
Payments in-lieu of taxes	84,000
Community benefits	25,422
Total Benefits to Community and City	<u>168,922</u>
Depreciation and amortization	<u>289,929</u>
Total Operating Expenses	<u><u>\$ 4,067,853</u></u>

See accompanying independent auditor's report.



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Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Trustees
Vinton Municipal Electric utility
Vinton, Iowa

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards issued by the Comptroller General of the United States, the financial statements of the business type activities of Vinton Municipal Electric Utility, Vinton, Iowa, as of and for the year ended June 30, 2015, and the related Notes to Financial Statements, which collectively comprise the Utility's basic financial statements listed in the table of contents, and have issued our report thereon dated January 14, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Vinton Municipal Electric Utility's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Vinton Municipal Electric Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of Vinton Municipal Electric Utility's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified deficiencies in internal control we consider to be a material weakness and other deficiencies in internal control we consider to be significant deficiencies.

A deficiency in internal control exists when the design and operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of Vinton Municipal Electric Utility's financial statements will not be prevented or detected and corrected on a timely basis. We consider the

deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-15 and II-B-15 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-C-15 and II-D-15 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Vinton Municipal Electric Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Governmental Auditing Standards.

Comments involving statutory and other legal matters about the Utility's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Vinton Municipal Electric Utility's Responses to Findings

Vinton Municipal Electric Utility's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Vinton Municipal Electric Utility's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Utility's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Utility's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Vinton Municipal Electric Utility during the course of our audit. Should you have any questions concerning the above matters, we shall be pleased to discuss them with you at your convenience.


RIDIHALGH, FUELLING, SMITKER, WEBER & CO., P.C., C.P.A.'S

January 14, 2016

Vinton Municipal Electric Utility
Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

Part I: Summary of the Independent Auditor's Results:

- (a) Unmodified opinions were issued on the financial statements.
- (b) A significant deficiency and a material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

- II-A-15 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent any individual employee from handling duties which are incompatible.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – The Board of Trustees is aware of the condition. We will review procedures and make changes where reasonable.

Conclusion – Response acknowledged.

- II-B-15 Preparation of Financial Statements – Management is responsible for establishing and maintaining internal controls over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP). The Utility does not have an internal control system designed to provide for the preparation of the financial statements, including accompanying footnotes, as required by generally accepted accounting principles.

As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements as well as prepare certain material adjusting entries to bring the Utility's cash basis records to accrual amounts.

Recommendation – Management should carefully review the financial statements including note disclosures and understand their relationship to the underlying data. All proposed adjustments and the reasoning behind them should be understood and approved. In the future the Utility should hire the year end adjustments hired outside the audit process.

Response – The Utility relies on the auditor to propose the adjustments necessary to prepare the financial statements and the related note disclosures in accordance with the applicable financial frameworks. The Utility reviews such financial statements. The Utility will look at the possibility of having the year end accruals done before the audit.

Conclusion – Response acknowledged.

II-C-15 Management Override of Controls – The Utility maintains a set of checks which are separate from the checks written from the Utility's software system. These checks are handwritten and draw from the Utility's checking account without affecting its financial statement balances. The Utility uses these checks to move funds physically deposited into its account, but recorded on the City's books, to the City's account. This issue also affected the Utility's bank reconciliation at year end.

Recommendation – When assets are removed from the Utility's accounts, the Board of Trustees or a party separate from the individual making the entry should review all entries for propriety. Documentation of these reviews should be kept along with the details of why the entry was made. Consideration for these checks should be given when performing bank reconciliations.

Response – These checks are used to transfer funds deposited into the Utility's checking when customers pay via credit or debit card. Because the bill includes both electric and other City utility charges, the amount is paid in one sum to one bank account. We will review the current procedures in place and look into developing a more complete and thorough system covering the transfer of City funds from the Utility's account.

Conclusion – Response acknowledged.

II-D-15 Reconciliations – The Utility's cash reconciliation did not reconcile to the amount reported on the Utility's financial statements.

Recommendation – The Utility should review all reconciliations to ensure they match the underlying data and that all reconciling items are explainable and understood.

Response – We have contacted the bank and will be using debit/credit memo slips to move monies between accounts in the future.

Conclusion – Response acknowledged.

Part III: Other Findings Related to Required Statutory Reporting:

- III-A-15 Certified Budget – Disbursements during the year ended June 30, 2015 did not exceed the amounts budgeted in the business type activities functions.
- III-B-15 Questionable Disbursements – We noted no specific individual questionable disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- III-C-15 Travel Expense – No disbursements of Utility’s money for travel expenses of spouses of Utility officials or employees were noted.
- III-D-15 Business Transactions – There were no material business transactions between the Utility and Utility officials or employees.
- III-E-15 Bond Coverage – Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- III-F-15 Board of Trustees Minutes – We noted no transactions requiring Board approval which have not been approved by the Board.
- III-G-15 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa or the Utility’s investment policy were noted.